

"(4) SPECIAL RULES APPLICABLE TO FOREIGN

GRANTOR WHO

LATER BECOMES A UNITED STATES PERSON.—

"(A) IN GENERAL.—If a nonresident alien individual

has a residency starting date within 5 years after

directly or indirectly transferring property to a foreign trust,

this section and section 6048 shall be applied as if such

individual transferred to such trust on the residency start-

ing date an amount equal to the portion of such trust

attributable to the property transferred by such individual

to such trust in such transfer.

"(B) TREATMENT OF UNDISTRIBUTED INCOME.—

For purposes of this section, undistributed net income

for periods before such individual's residency starting

date shall be taken into account in determining the portion

of the trust which is attributable to property transferred

by such individual to such trust but shall not otherwise be taken

into account.

"(C) RESIDENCY STARTING DATE.—For

purposes of this

paragraph, an individual's residency

starting date is the

residency starting date determined

under section

7701(b)(2)(A).

"(5) OUTBOUND TRUST MIGRATIONS.—If—

"(A) an individual who is a citizen or resident of the

United States transferred property to a trust which was

not a foreign trust, and

"(B) such trust becomes a foreign trust while such

individual is alive,

then this section and section 6048 shall be applied as if such

individual transferred to such trust on the date such trust

becomes a foreign trust an amount equal to the portion of

such trust attributable to the property previously transferred

by such individual to such trust. A rule similar to the rule

of paragraph (4)(B) shall apply for purposes of this paragraph."

(d) MODIFICATIONS RELATING TO WHETHER TRUST HAS

UNITED

STATES BENEFICIARIES.—Subsection (c) of section 679 is amended

by adding at the end the following new paragraph:

"(3) CERTAIN UNITED STATES BENEFICIARIES

DISREGARDED.—

A beneficiary shall not be treated as a United States person

in applying this section with respect to any

transfer of property
to foreign trust if such beneficiary first became a
United States
person more than 5 years after the date of such
transfer."

(e) TECHNICAL AMENDMENT.—Subparagraph (A)
of section

679(c)(2) is amended to read as follows:

"(A) in the case of a foreign corporation.
such corporation
tion is a controlled foreign corporation (as
defined in section
957(8))."

(f) REGULATIONS.—Section 679 is amended by
adding at the

end the following new subsection:

"(d) REGULATIONS.—The Secretary shall prescribe
such regulations
tions as may be necessary or appropriate to carry out
the purposes
of this section."

26 USC 679 note. (g) EFFECTIVE DATE.—The amendments made by
this section shall apply to transfers of property after February 6,
1995.

**SEC. 1904. FOREIGN PERSONS NOT TO BE
TREATED AS OWNERS
UNDER GRANTOR TRUST RULES.**

(a) GENERAL RULE.—